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Regional Grain Cooperatives 1961-62

24rd Annual Report

By Daniel H. McVey

Distribution of this report is limited to managers and directors of regional grain cooperatives, banks for cooperatives, extension marketing specialists and agricultural economics personnel in State colleges interested in grain marketing.

Service Report 64

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FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C.

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, quality, costs, efficiency, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmers' cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

REGIONAL GRAIN COOPERATIVES
1961-62

By

Daniel H. McVey
Grain Branch
Marketing Division

This report covers the financial condition and operating results of a group of regional grain cooperatives. It is the latest in the annual series of such reports started in 1938 and continued at the request of the cooperatives.

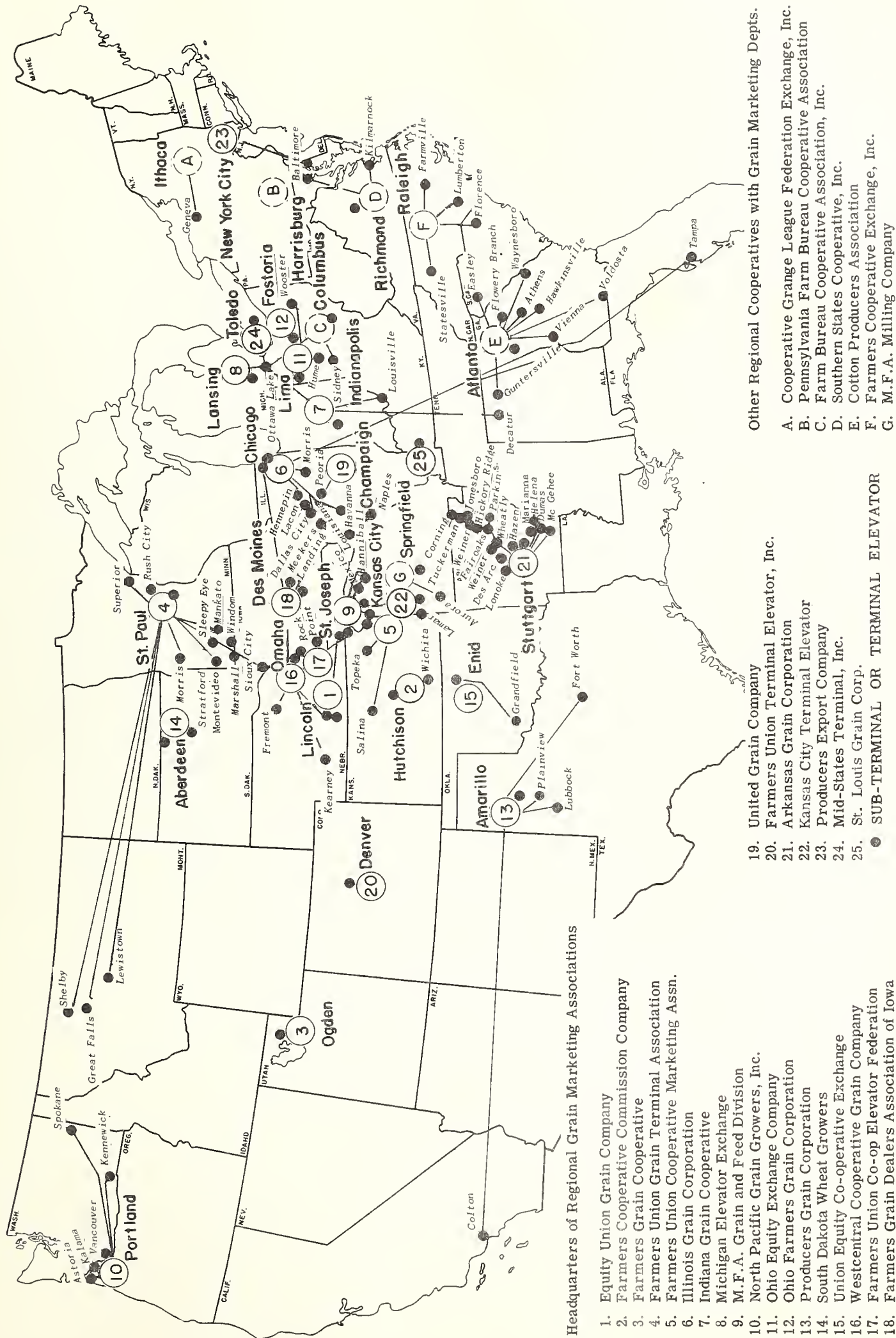
This report contains data for the 1961-62 season and shows some comparisons for the entire period 1938-39 through 1961-62. In addition, we have pointed out some of the more current developments that have taken place since the end of the 1962 fiscal year.

Regional grain cooperatives continue to make every effort to meet the demands of their members by conducting up-to-date grain marketing services at subterminal and terminal markets (figure 1).

They have rapidly expanded and modernized elevator facilities to handle and store current reserves and carryover stocks and to merchandise member associations' grain. Much of the recent activity has been at strategic river or lake points to take advantage of cheaper water transportation and increase market potentials.

With the increased production of grain and livestock in southern and southeastern States, cooperatives are giving more attention to installing processing and storage facilities in these areas to supply grain for feed and to furnish outlets for their own member production.

Figure 1
Location of Regional Grain Marketing Services and Their Sub-terminal and Terminal Elevators, 1963



Regionals have helped members improve their facilities and conduct more efficient grain marketing operations at the local level. Through the National Federation of Grain Cooperatives, grain research programs, advisory committees, radio and television programs, and other media, managements of the regionals are helping all grain farmers.

For several years, some regionals have cosponsored accounting schools for the local elevator bookkeepers, where students receive valuable training. Several also have conducted management training conferences, directors' schools, and member relations clinics.

Several regionals have installed milling and baking laboratories to learn more about the product they sell for their members and thus encourage farmers to grow the kind of grain that will sell best.

Many of these cooperatives are also working closely with grain improvement associations in developing new varieties so they can advise members on the best types of wheat and other grains to produce. By meeting exact milling specifications and feeding requirements, farmers can expect better returns and more use for their cash grain. Some regionals also pay premiums for approved varieties and protein content.

Some of them are moving into the feed, seed, and farm supply field and others are expanding their services along these lines. Some of the grain regionals have started soybean processing. For example, in 1960, Farmers Union Grain Terminal Association (GTA), St. Paul, Minn., acquired Honeymead Products, the largest single soybean processing plant in the country.

In addition to producing crude oil and meal Honeymead has been further processing these products into finished liquid oil and industrial soy flour and grits. Currently, Honeymead is installing hydrogenation equipment and will soon be producing hardened oil. In 1961, GTA acquired the facilities of the Minnesota Linseed Oil Company, one of the largest flaxseed processors in the country. GTA has also moved rapidly into feed milling and distribution.

Arkansas Grain Corporation, Stuttgart, after 2 years' operation of its new soybean extraction plant, is expanding storage facilities and adding other equipment to further process soybean products. They have under construction a second processing plant and terminal elevator at Helena on the Mississippi River.

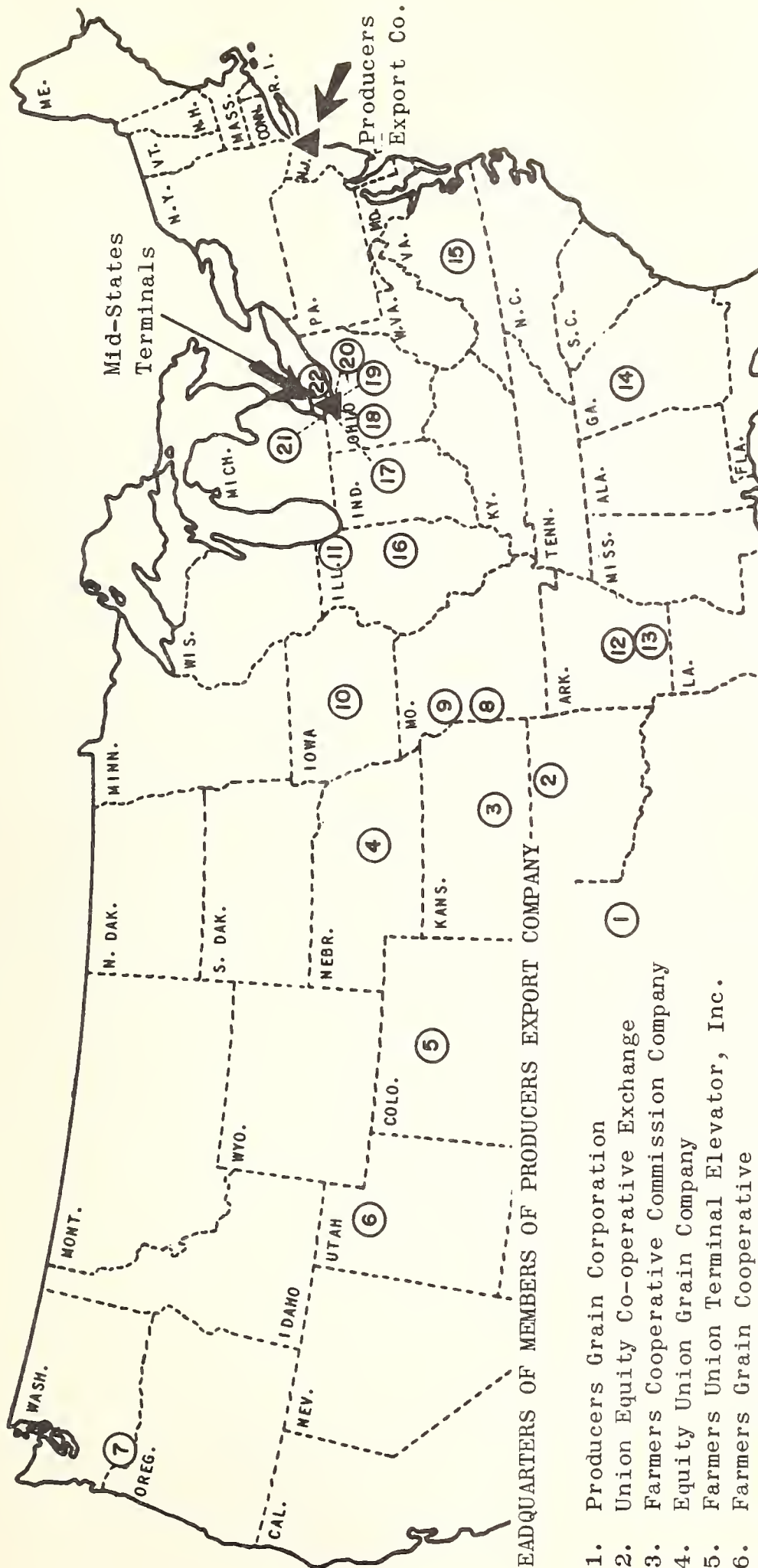
Farmers Union Cooperative Marketing Association (CMA), Kansas City, Mo., acquired the facilities of Dannen Mills, St. Joseph, Mo., in the late summer of 1963. These facilities include a modern soybean processing plant, a large terminal elevator on the Missouri River, three feed mills, a line of country elevators, and other facilities.

Missouri Farmers Association, Columbia, has greatly expanded its soybean processing capacity at Mexico with the addition of a new solvent extraction plant. Farmers Cooperative Commission Company, Hutchinson, Kans., has installed facilities to process its members' wheat into bulgar.

In another effort to improve the bargaining position of cooperative growers in the market place, 19 regionals joined together in 1958 and organized the Producers Export Company with offices in New York City. Membership has grown to 22 regionals (figure 2). In their first 2½ years

Figure 2.

HEADQUARTER LOCATIONS OF MEMBERS OF PRODUCERS EXPORT COMPANY AND MID-STATES TERMINALS



1. Producers Grain Corporation
2. Union Equity Co-operative Exchange
3. Farmers Cooperative Commission Company
4. Equity Union Grain Company
5. Farmers Union Terminal Elevator, Inc.
6. Farmers Grain Cooperative
7. North Pacific Grain Growers, Inc.
8. Farmers Union Cooperative Marketing Association
9. M.F.A. Grain and Feed Division
10. Farmers Grain Dealers Association of Iowa
11. Illinois Grain Corporation
12. Arkansas Grain Corporation
13. Arkansas Rice Growers Cooperative
14. Cotton Producers Association
15. Southern States Cooperative, Inc.
16. United Grain Company
17. Indiana Grain Cooperative*
18. Ohio Equity Exchange Company*
19. Farm Bureau Cooperative Association*
20. Ohio Farmers Grain Corporation*
21. Michigan Elevator Exchange*
22. Mid-States Terminal, Inc.

* Also members of Mid-States Terminals

they exported nearly 100 million bushels of grain valued at about \$175 million to some 25 countries around the world.

Several of the regionals, many of them members of Producers Export, have terminal elevators located on water. North Pacific Grain Growers of Portland, Oreg., entered into a lease agreement with the Port Authority of Kalama, Wash., to construct a large, fast-handling port elevator now in operation.

Farmers Union Cooperative Marketing Association, Kansas City, Mo., is operating through its loading facilities on the Missouri River.

West Central Grain Cooperative at Omaha, Nebr., and Equity Union Grain Cooperative, Lincoln, Nebr., are also operating through their new river houses. West Central recently purchased another barge-loading site on the Missouri River north of Omaha.

The Missouri Farmers Association, Columbia, built a river terminal at Kansas City and acquired one at Hannibal, Mo. Last year, Missouri Farmers and Equity Union organized a new cooperative, Kansas City Terminal Elevator, which acquired the M.F.A. terminal and doubled its capacity, and are now operating jointly through it.

Farmers Grain Dealers Association, Des Moines, Iowa, acquired and enlarged water facilities at Meekers Landing 2 years ago through which they shipped over 5 million bushels of grain last year. They recently bought another site at McGregor and are constructing barge facilities there. They also own a site on the Missouri River in western Iowa.

Union Equity Cooperative Exchange, Enid, Okla., has a terminal elevator under construction at the port of Houston, Tex.

In addition, the five regional grain organizations in Ohio, Indiana, and Michigan have organized Mid-States Terminals, Inc., with headquarters at Toledo, Ohio, to take advantage of new markets and cheaper transportation rates on the St. Lawrence Seaway. These members (all of them are also members of Producers Export) purchased a terminal elevator on the Seaway at Toledo, which has been modernized and expanded. For the year just ended, they handled 20 percent of the volume marketed through Toledo.

Another highly significant development in 1963 was the acquisition of a modern terminal at St. Louis with good access to water, rail, and highway transportation. Three of the regionals, Illinois Grain Corporation, Farmers Union Grain Terminal Association, and Missouri Farmers Association organized a Missouri cooperative, St. Louis Grain Corporation to acquire and operate this facility.

Through actions such as these, the bargaining strength of cooperative elevator patrons is increased.

Most of the information in this report concerns the 16 regional grain cooperatives on which we have data beginning with their first year of operation in 1938-39. Fourteen other regionals--seven farm supply organizations and nine grain cooperatives--came into being after that date. A number of the regional farm supply cooperatives have set up grain marketing departments to perform the same function and services as the grain regionals.

Figure 1 shows the location of the 25 regional grain cooperatives in operation in 1963, and their subterminal and terminal elevators, and the 7 other regional cooperatives with grain marketing departments. These

regionals operate elevators at 131 market locations. These do not include commission offices where there are no cooperative facilities.

About 37 of these locations handle barge grain and by using water transportation are making significant savings for their members.

The annual reports before 1959 primarily covered data on those 16 associations on which we had records from 1938-39. Since then, the reports have been enlarged to include information on additional associations.

Part I shows the data on the 16 organizations and preserves the annual series. Part II contains information on 27 associations for which data are available for the last 4 years. The 27 associations include the 16 discussed in Part I.

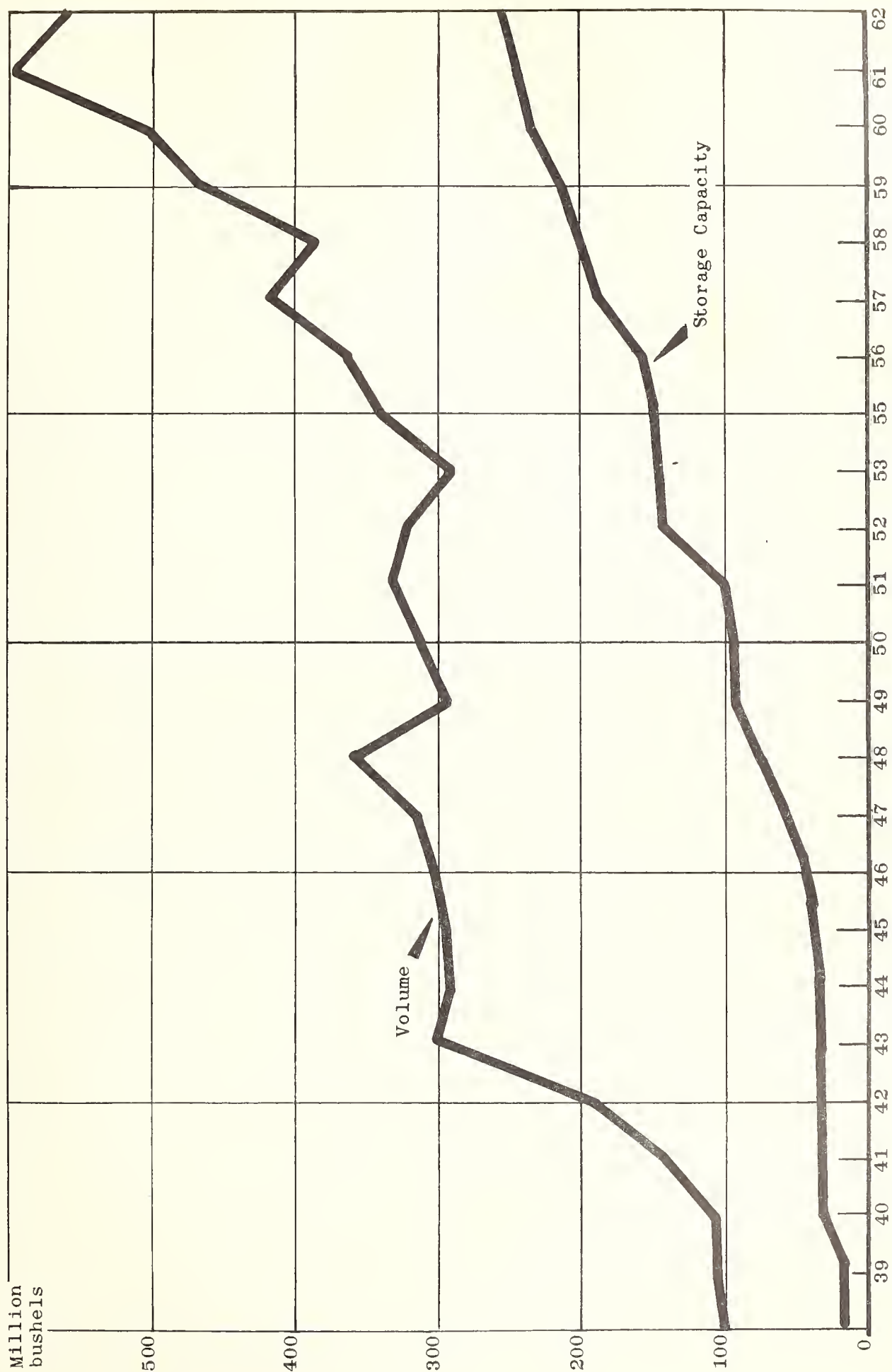
Part I - 16 Regional Grain Cooperatives

These 16 regional grain cooperatives have greatly expanded their storage capacity over the years, particularly since 1953, to meet the needs of members.

Figure 3 shows this expansion. By harvest time of 1963, the regionals will have nearly 253 million bushels of storage compared with less than 20 million in the early years and 35.5 million bushels at the end of World War II. The greatest expansion occurred in 1954--44 million bushels--but the 28 million bushel expansion in 1958 also stands out. Capacity has considerably more than doubled since 1953. Nearly all the space in use is owned, although some Port Authority elevators are operated on a long-term lease basis.

Figure 3

Combined Volume and Storage Capacity of 16 Regional Grain Cooperatives,
1938-39 to 1961-62



Since 1944, the combined volume of grain marketed by the 16 regionals has seldom been below 300 million bushels a year, with peaks of more than 360 million bushels in 1949 and for each of the last 7 years (figure 3). In 1961-62, volume was 562 million bushels--down 6 percent from 1960-61. This is the third consecutive year that volume reached a half-billion bushels or more.

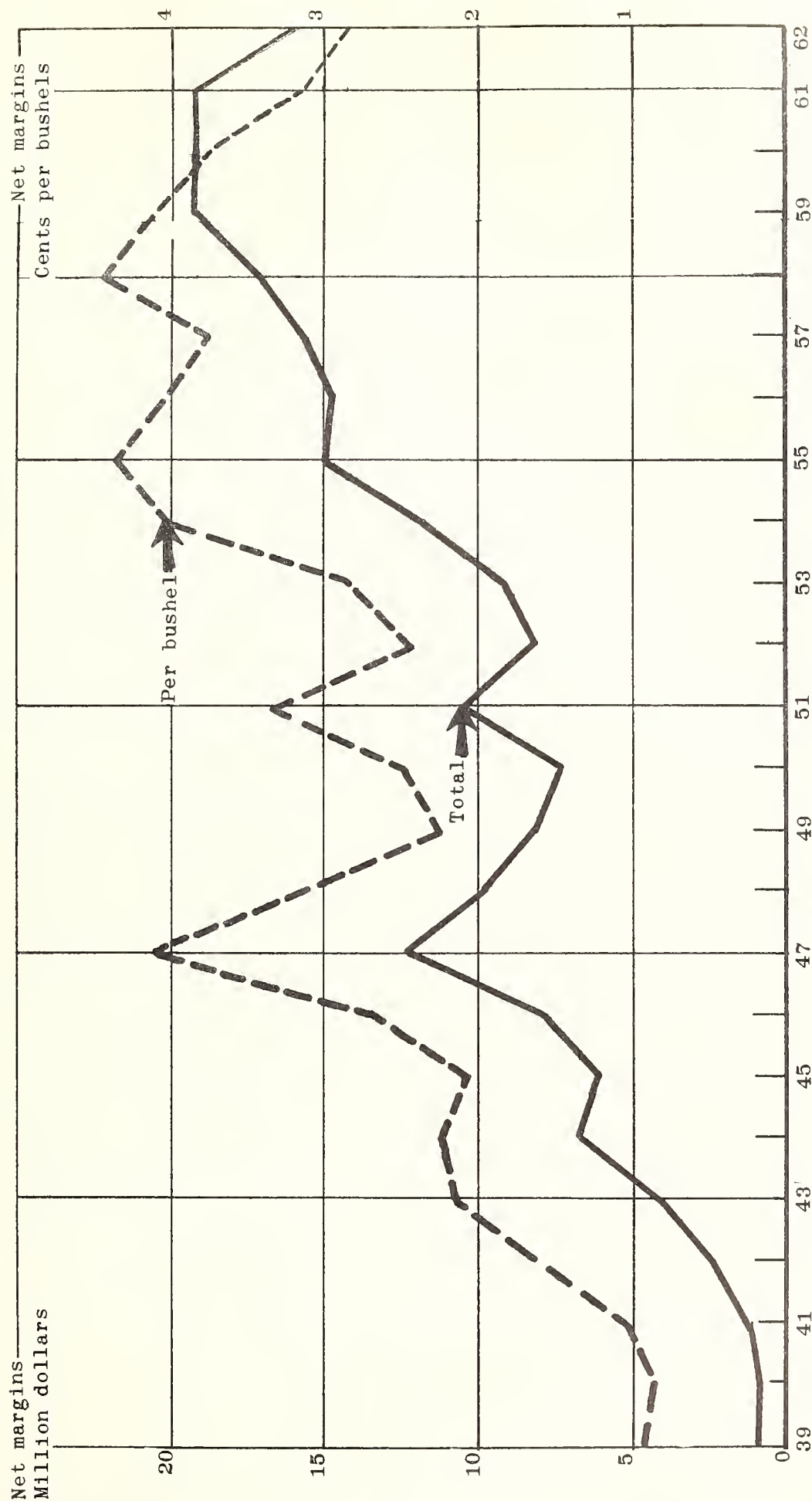
During the 23-year period beginning with 1938-39, these associations handled 7.71 billion bushels of grain. In the last 3 years alone of this period, volume amounted to nearly 1.7 billion bushels and more than 2.5 billion bushels in the last 5 years of the period. This does not take into account quantities of grain handled for the Commodity Credit Corporation.

Since regional grain cooperatives began operation, total production of major grains has increased by about 57 percent. The proportion leaving the farm has gone up even faster--in fact $2\frac{1}{2}$ times in the same period. Even so, the regionals have more than kept the pace. In their first 3 years of operation, they accounted for about 6.5 percent of the grain leaving the farm. Currently they account for about 15 percent. The proportion handled by cooperatives would be higher if C.C.C. volume were included.

When taken as a group, these 16 cooperatives showed a net margin for each of the 23 years. Total margins trended upward reaching nearly \$20 million in 1958-59. They declined somewhat after that but were more than \$16 million in 1961-62 (figure 4). On a bushel basis, the peak was reached in 1957-58 at 4.46 cents but has since declined. In the first

Figure 4

Combined Net Margins of 16 Regional Grain Cooperatives, 1938-39 to 1961-62



few years, the combined annual margin was around \$1 million; for the last 5 years of the period, in excess of \$16 million (table 1).

The net margin in 1961-62 was equal to a return of more than 16 percent on the book value of fixed assets and to 6.1 percent on all assets.

In the very early years, the net margin per bushel handled averaged around 1 cent. There was a gradual increase to around 4 cents a bushel in the period 1953-54 to 1959-60. In 1961-62, the margin declined to 2.88 cents a bushel or 8 percent from the year before, reflecting intense competition and reduced storage rates under the Uniform Grain Storage Agreement.

We can reasonably assume that such margins would not have been realized if handling, merchandising, and storage facilities had not been available (figure 5). Total net margins for the 24-year period were \$242.5 million, with 38 percent of the amount realized in the last 4 years of the period under study. The average margin per bushel for the 24 years was 3.15 cents.

As would be expected from the storage capacity and volume data, the combined balance sheet of these organizations changed greatly over this 24-year period. Current assets in 1939 were \$5.2 million; they showed almost continual annual growth and reached a record \$150 million in 1962, an increase of 35 percent over the year before (figure 6 and table 2).

Inventories increased by more than \$20 million and other current assets by more than \$18 million while cash remained about the same.

Figure 5

Combined Storage Capacity and Net Margins of 16 Regional Grain Cooperatives,
1938-39 to 1961-62

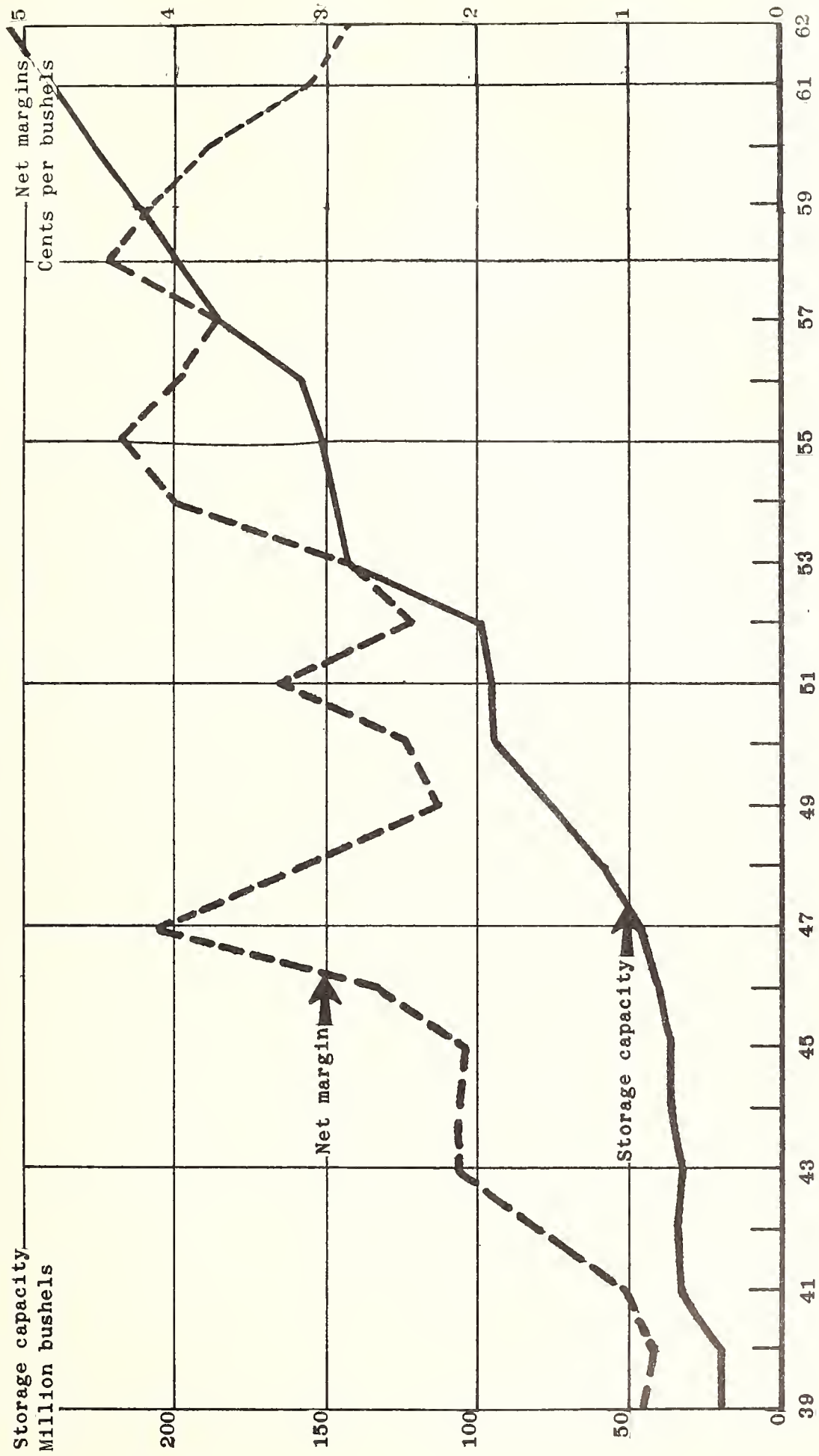


Figure 6

Combined Assets of 16 Regional Grain Cooperatives, 1938-39 to 1961-62

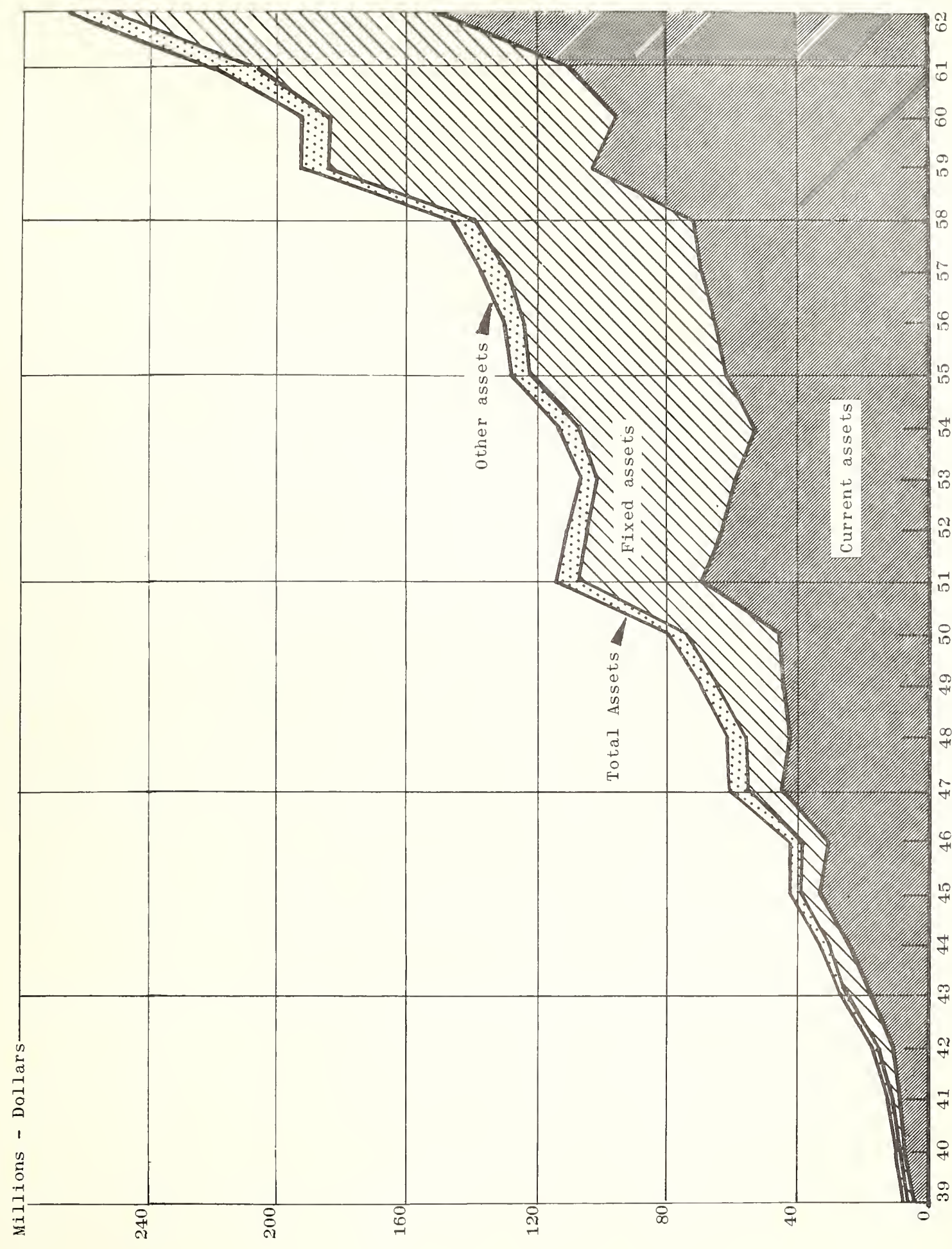


Table 1.--Total grain handled and combined net margins of 16 regional grain cooperatives, 1938-39, 1960-61, and 1961-62

Fiscal year	Volume of grain handled <u>1,000 bushels</u>	Combined net margins <u>\$1,000</u>	Net margins per bushel <u>Cents</u>
1938-39	100,123	\$ 886	0.89
1960-61	598,065	18,711	3.13
1961-62	561,728	16,063	2.88

The net value of fixed assets was less than \$1 million in 1939 and didn't reach \$10 million until 1947. There was a rapid buildup after that reaching a record \$100.2 million in 1962--only a \$3.3 million increase over the year before. The increase in the last 4 years under study was about \$34 million. Rapid amortization of a number of facilities has held this value down.

Total assets in 1939 were \$6.6 million. These showed a steady growth, reaching a record \$263 million in 1962--an increase of nearly \$43 million over 1961. Five associations had assets in excess of \$16 million each in 1962.

Although large amounts of capital have been used in recent years for expanding facilities, member equities in these 16 regionals continued to rise. In the 24 years from 1938-39 to 1961-62, member equities rose from \$3.2 million to \$139.1 million and showed an increase every year (table 2 and figure 7). In the last year, they rose by \$6.4 million, or 4.9 percent, over 1960-61. They increased \$50 million in the last 5 years and at the end of the 1962 fiscal year were equal to 53 percent of the total asset value and 39 percent greater than the value of fixed assets.

About \$87 million of the equity is in the form of certified capital and nearly \$52 million is in surplus and reserves. This latter category has grown rapidly in recent years and in some organizations is equal to the certified capital.

Annual working capital has shown a steady increase from the beginning and amounted to nearly \$68 million in 1962. This may be compared to the \$2.8 million in 1939.

Figure 7
Combined Liabilities and Member Equities of 16 Regional Grain Cooperatives,
1938-39 to 1961-62

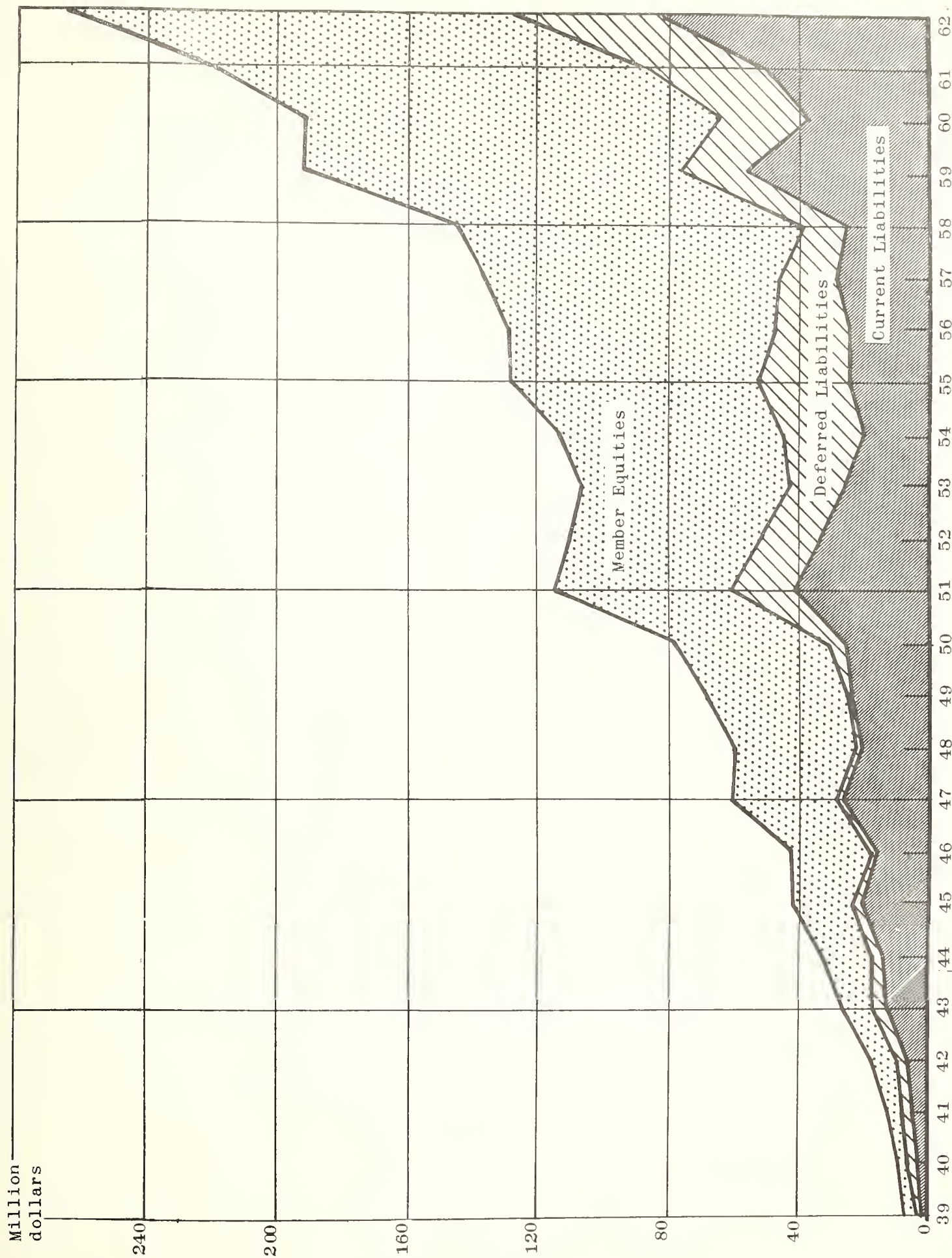


Table 2.--Consolidated balance sheet of 16 regional grain cooperatives at the close of marketing years 1938-39, 1960-61, and 1961-62 1/

Item	1938-39	1960-61	1961-62
		\$1,000	
<u>Assets</u>			
Current assets			
Cash	\$ 1,160	\$ 8,705	\$ 8,907
Inventory	1,117	47,315	67,899
Other current assets	<u>2,970</u>	<u>54,653</u>	<u>73,004</u>
Total current assets	5,247	110,673	149,810
Fixed assets (less depreciation reserve)	930	96,863	100,182
Other assets	<u>466</u>	<u>12,567</u>	<u>13,081</u>
Total assets	6,643	220,103	263,073
<u>Liabilities and member equities</u>			
Liabilities			
Current <u>2/</u>	2,443	51,665	82,015
Deferred	<u>1,003</u>	<u>35,804</u>	<u>41,995</u>
Total liabilities	3,446	87,469	124,010
Member equities			
Certified capital	1,555	83,079	86,876
Surplus and reserve	<u>1,642</u>	<u>49,555</u>	<u>52,187</u>
Total member equities	3,197	132,634	139,063
Total liabilities and member equities	6,643	220,103	263,073

1/ Closing dates of fiscal years of individual associations vary within the crop year from December 31 to August 31.

2/ Includes some patronage refunds and stock dividends soon to be paid to members.

Liabilities increased considerably last year. At \$124 million, they were up \$36.5 million from 1960-61. Long-term liabilities have fluctuated considerably over the years but have been higher in recent years due to the accelerated construction program. At the end of 1961-62, they amounted to \$42 million compared to \$1 million in 1938-39 (figure 7). At the end of 1961-62, deferred liabilities were nearly 42 percent of the book value of fixed assets.

Much of the recent increase in liabilities has been in the current category. They reached more than \$57 million in 1958-59, declined to \$39 million in 1959-60, and increased to \$82 million in 1961-62, due largely to inventory and other current asset increase. In 1962, they comprised 66 percent of the total liabilities. A portion of these current liabilities were patronage dividend payments and interest on stock which had been declared but not disbursed.

Part II - 27 Regional Grain Cooperatives

As mentioned earlier, several regional grain cooperatives have been organized since 1938, and some regional farm supply cooperatives have added grain marketing departments. Data for 1958-59 through 1961-62 on 11 of these organizations have been combined with the data on the original 16 associations to give a more complete picture of current cooperative regional grain marketing.

These organizations have terminal or subterminal elevators at 68 locations with a little over 70.5 million bushels of storage capacity.

This makes a total of 32.3 million bushels of storage capacity for the 27 organizations. Thus the capacity per association and per elevator is much greater for the 16 associations than for the 11.

Total assets of the 27 associations in 1962 were nearly \$321 million, up about \$48 million from the year before. Inventory values were up appreciably, accounting for about two-thirds of the increase. Fixed assets increased from about \$117 million to slightly over \$121 million (table 3 and figure 8).

Liabilities increased by more than \$38 million during the year with most of the increase in current liabilities. Member equities increased to \$164.3 million from \$154.5 million in 1961, or more than 6 percent.

The 11 organizations merchandised nearly 142 million bushels of grain in 1961-62, up nearly 15 percent from the volume in 1961-61. However, volume for the 27 associations in 1961-62 was 704 million bushels, down about 2½ percent from 1960-61 (figure 9).

Again this year, we obtained volume data by kind of grain. The 27 regional cooperatives handled almost 688 million bushels of the 8 major grains and oilseeds (wheat, corn, oats, barley, soybeans, sorghum, flax, and rye).

Only two organizations handled all eight of these grains but six others handled as many as seven grains. Ten organizations handled fewer than five grains. This 688 million bushels is equal to 16.2 percent of the total off-farm sales of these grains from the 1961 crop (figure 10). These cooperatives handled 51.2 percent of the flax, 27.7 percent of the wheat, nearly 17 percent of the soybeans, and so on down to a little more than 6 percent of the sorghum.

Figure 8

Combined Assets, Liabilities and Member Equities
of 27 Regional Grain Cooperatives, 1961-62

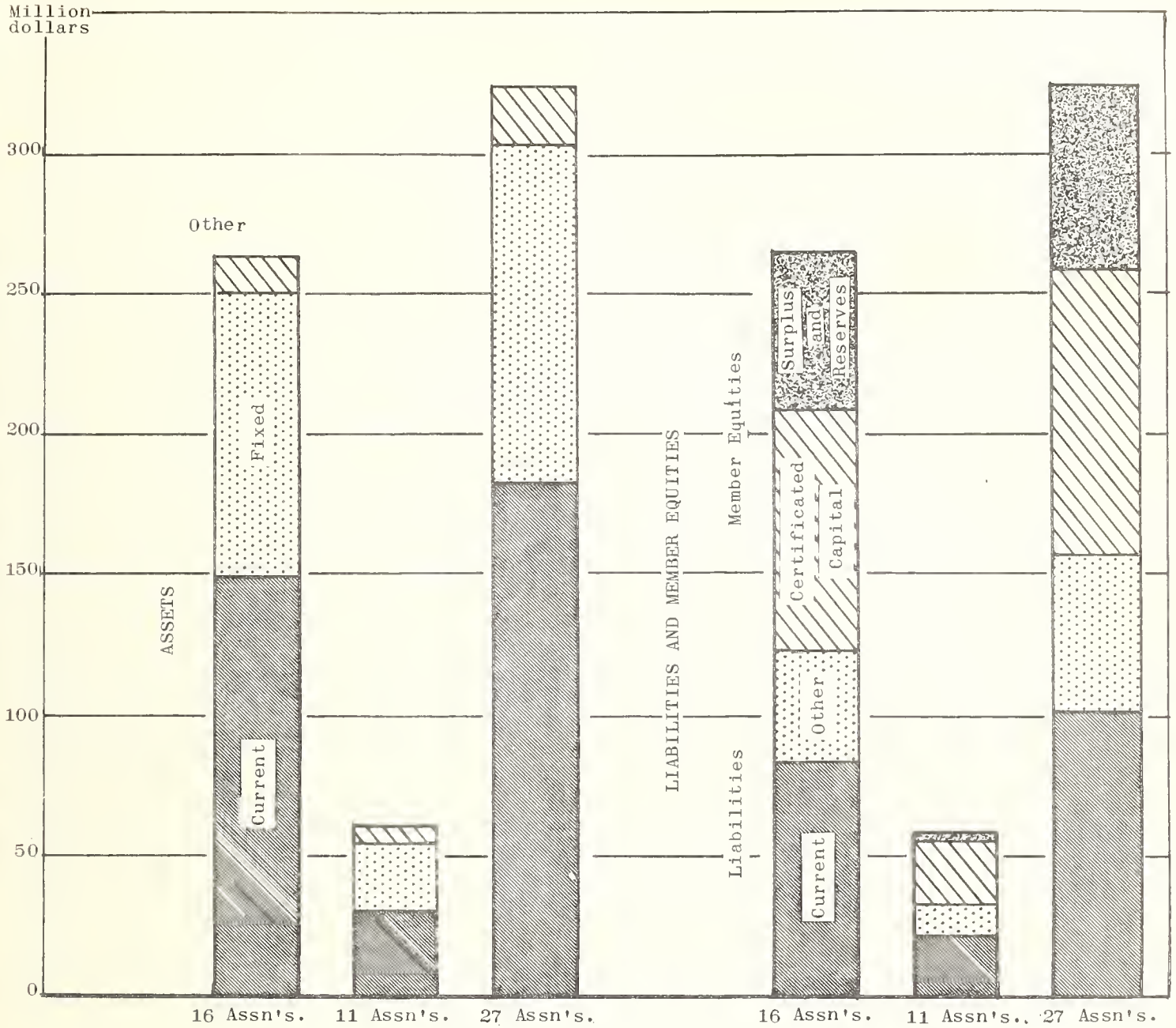


Figure 9

Combined Volume, Storage Capacity, and Net Margins of 27 Regional Grain Cooperatives 1959-60, 1960-61 and 1961-62

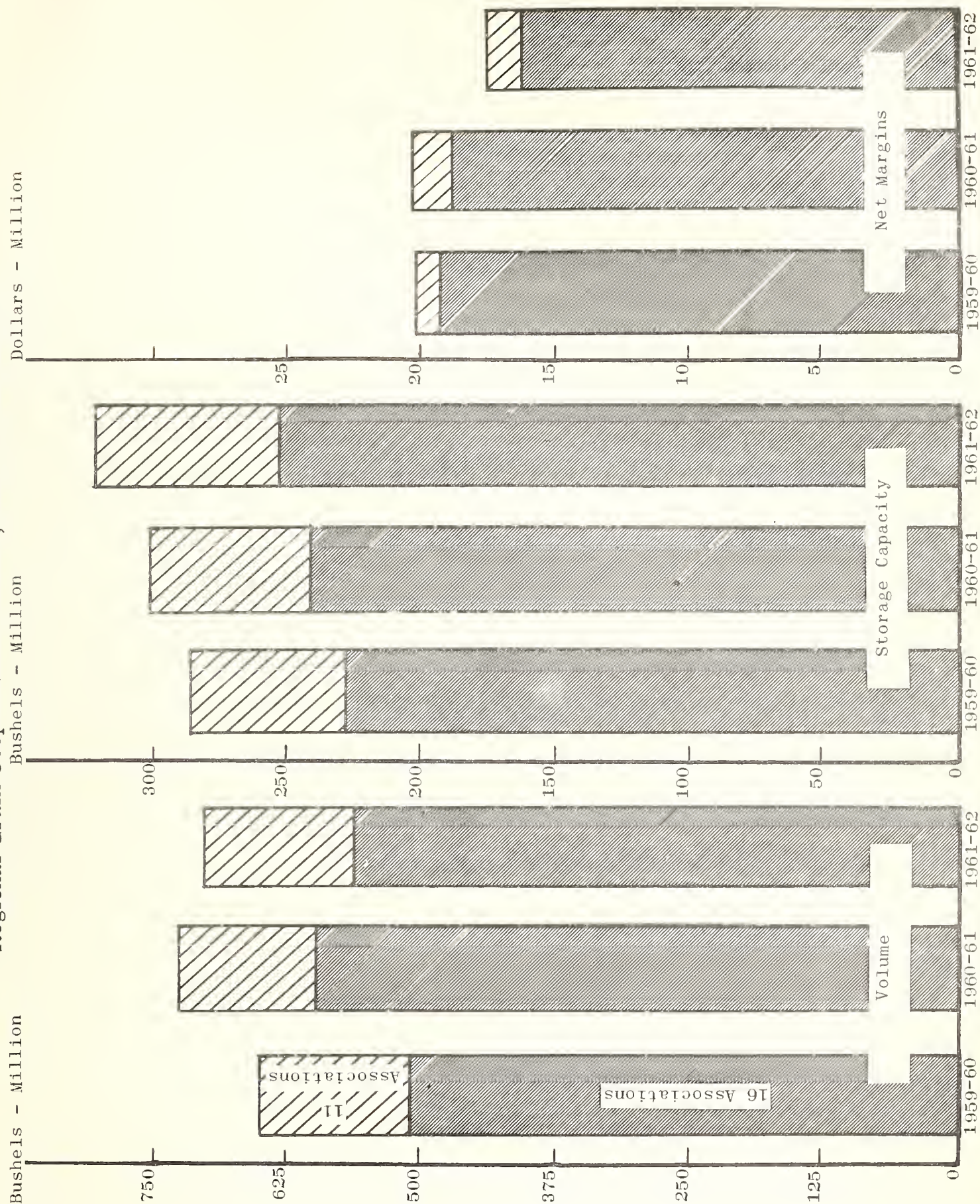
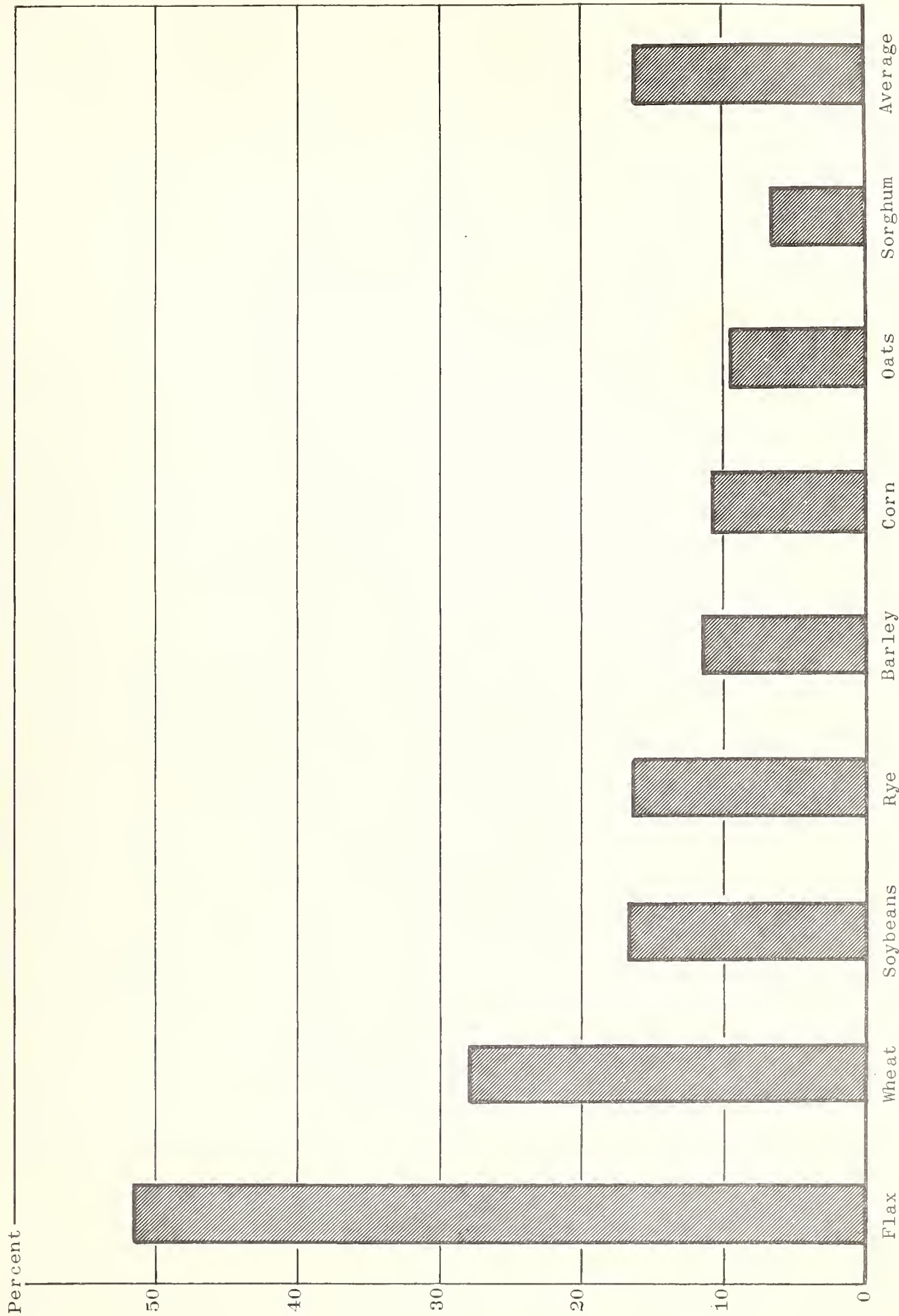


Figure 10

Proportion of Total of Off-Farm Grain Sales¹ Handled by
27 Regional Grain Cooperatives, 1961-62 -- Percent by Kind of Grain



¹/ Source: Statistical Reporting Service, Crop Reporting Board, U.S.D.A., Cr. Pr. 1 (63)

Table 3.--Consolidated balance sheet of 27 regional grain cooperatives at the close of marketing years 1958-59 to 1961-62 1/

Item	: 1958-59	: 1959-60	: 1960-61	: 1961-62
			\$1,000	
<u>Assets</u>				
Current assets				
Cash	\$15,240	\$20,197	\$ 9,826	\$10,297
Inventory	53,075	40,053	69,374	92,029
Other current assets	<u>60,754</u>	<u>53,825</u>	<u>59,526</u>	<u>80,099</u>
Total current assets	129,069	114,075	138,726	182,425
Fixed assets (less depreciation reserve)	97,286	106,659	117,361	126,011
Other assets	<u>10,094</u>	<u>11,187</u>	<u>16,268</u>	<u>17,169</u>
Total assets	236,449	231,921	272,355	320,605
<u>Liabilities and member equities</u>				
Liabilities				
Current <u>2/</u>	71,991	50,260	69,430	101,088
Deferred	<u>27,389</u>	<u>35,592</u>	<u>48,421</u>	<u>55,213</u>
Total liabilities	99,290	85,852	117,851	156,301
Member equities				
Membership capital	90,306	95,150	97,416	103,804
Surplus and reserves	<u>46,853</u>	<u>50,919</u>	<u>57,088</u>	<u>60,500</u>
Total member equities	137,159	146,069	154,504	164,304
Total liabilities and member equities	236,489	231,921	272,355	320,605

1/ Closing dates of fiscal years of individual associations vary within the crop year from December 31 to August 31.

2/ Includes some patronage refunds and stock dividends soon to be paid to members.

Some organizations handled other kinds of grain in addition to those enumerated above. Their volume of nearly 16 million bushels was composed of beans, peas, rice, millet, and buckwheat. This makes a total volume of nearly 704 million bushels.

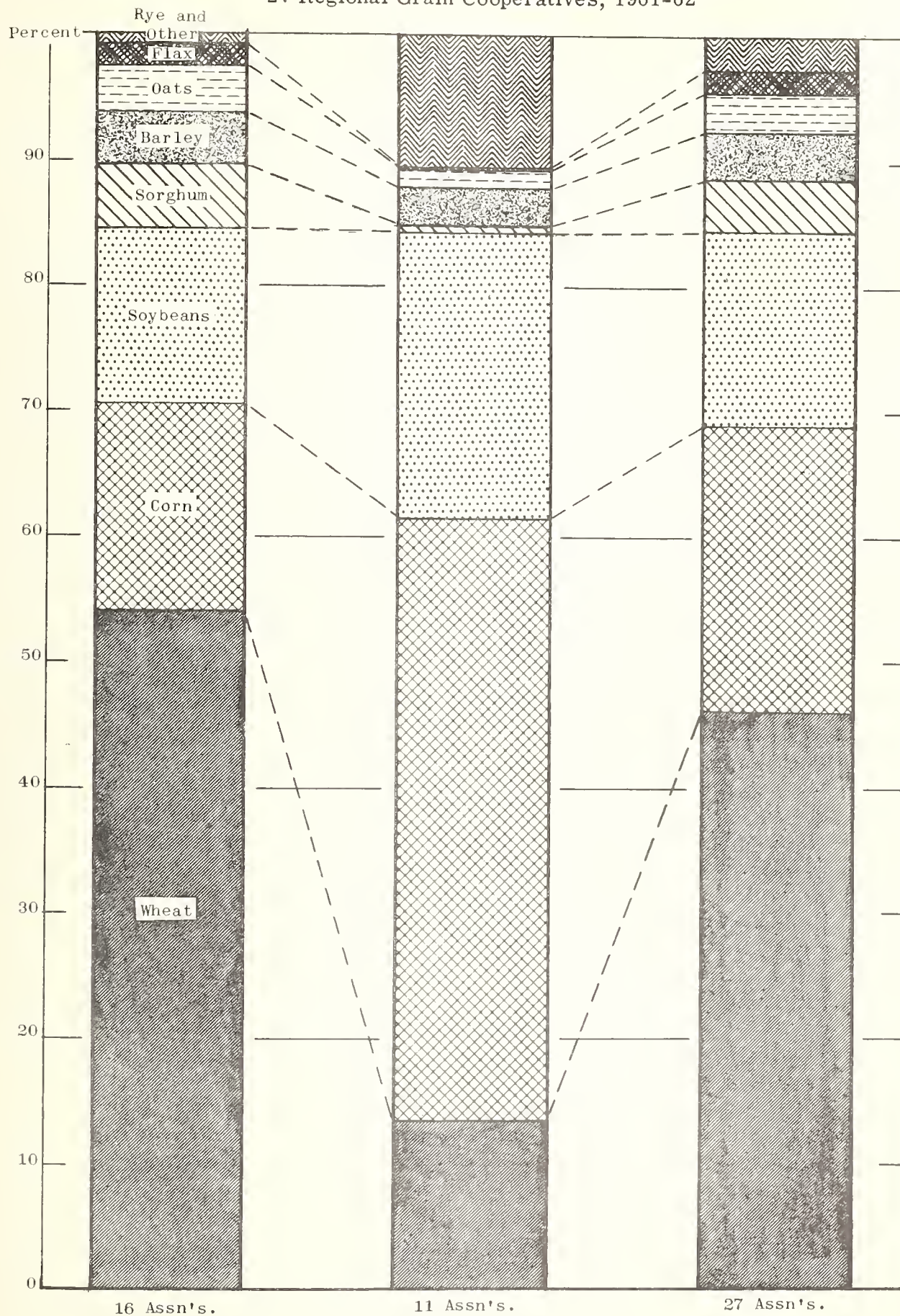
Wheat was, by far, the largest volume grain handled by these cooperatives--more than 46 percent of the total (figure 11). Corn was next at 23 percent and soybean nearly 16 percent. There was considerable difference in kind of grain handled by the original 16 associations and the 11 that were organized later. Location with respect to producing areas is important here.

Net margins were \$1.5 million for the 11 associations, making a total for the 27 of nearly \$17.6 million or 2.5 cents a bushel in 1961-62, compared to 2.8 cents in 1960-61 and to 3.1 cents in 1959-60.

As a group, the regional grain cooperatives have grown rapidly, are in sound financial condition and operate efficiently. Through these organizations, farmers have increased their bargaining strength at the local, terminal, and national levels. Quality has been emphasized by paying premiums for approved varieties and protein content. Marketing margins have been reduced through the competition furnished by these organizations.

Management of these associations still face many important problems. Day-to-day price changes and crop conditions affect operations. Transportation, including the changing rate structure, is vitally important. Government programs and policies and technological changes in farming itself change and affect volume and operations.

Figure 11
Kind of Grain as a Percent of Total Volume Handled by
27 Regional Grain Cooperatives, 1961-62



Many costs have been rising and do not decline in proportion to volume decreases. This increases unit operating costs. Quality maintenance or improvement is being stressed more and more. New or additional services must be performed to meet member requirements.

The managers and directors of these regionals have demonstrated their ability to deal with problems during the years as evidenced by their growth. The experience gained should enable them to anticipate and meet future problems as they arise.

